

## Jindal Steel (JSL)

HOLD

## Margin Expansion on Cost Tailwinds, Volume Drag Persists

## Summary

JSL's Q1FY26 performance exceeded our estimates on all parameters. Revenue declined 7% QoQ to Rs123bn, primarily due to an 11% drop in volumes, attributed to the early onset of the monsoon and inventory replenishment post Q4FY26 drawdown. Despite volume decline, management maintained its FY26 guidance. Additionally, NSR improved 5% QoQ, driven by better steel prices and higher VAP contribution. Consequently, EBITDA grew 32% QoQ to Rs30bn, with EBITDA/tonne increasing by 42% QoQ to Rs15,819, supported by lower coking coal and conversion costs. JSL incurred capex of Rs22bn in Q1FY26 vs Rs23bn in Q4FY25. Net debt increased by Rs24bn to Rs114bn during the quarter. We value the stock based on EV/EBITDA multiple of 6.5x FY27E EBITDA to derive a Target Price of Rs 952. We maintain our HOLD rating on the stock.

## Key Highlights and Investment Rationale

- Steady growth in Value added products:** The volume of VAP declined 3% QoQ but grew 13% YoY to 1.37mn tonnes, driven by high-growth sectors such as Infra, and Building & Construction. The share of VAP in total volumes increased to 72% in Q1FY26 (vs. 66% in Q4FY25), supporting margin expansion. The infrastructure segment contributed the most, accounting for 40% of sales in Q1FY25 (vs. 36% in Q4FY25) followed by trade and retail at 33% (vs. 34% in Q4FY25), and other segments at 27%.
- Outlook:** Management plans a total capex of Rs211bn over next 3 years. Furthermore, management expects a reduction in coking coal costs by \$5/tonne while iron ore costs are likely to track HRC price trend. Additionally, the commissioning of the blast furnace 2 which is expected to add 0.7-1.6 mn tons in FY26, has been delayed from Q1FY26 to Q2FY26. Additionally, BOF-2 is currently undergoing pre-commissioning tests.

<b>TP</b>	<b>Rs952</b>
<b>CMP</b>	<b>Rs995</b>
Potential upside/downside	-4%
Previous Rating	HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	6.0	9.4	9.5
Rel to Sensex	8.4	10.1	7.5

## V/s Consensus

EBITDA (Rs bn)	FY26E	FY27E
IDBI Capital	128	161
Consensus	125	162
% difference	2.0	(0.4)

## Key Stock Data

Bloomberg / Reuters	JSP IN / JNSP.BO
Sector	Metal & Mining
Shares o/s (mn)	1,020
Market cap. (Rs mn)	1,014,886
3-m daily average value (Rs mn)	40.1
52-week high / low	Rs1,074 / 724
Sensex / Nifty	80,540 / 24,619

## Shareholding Pattern (%)

Promoters	62.4
FII	9.8
DII	16.0
Public	11.8

## Financial snapshot

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	527	500	498	580	663
Change (yoy, %)	3.2	(5.1)	(0.5)	16.5	14.3
EBITDA	99	102	95	128	161
Change (yoy, %)	(36.0)	2.7	(6.9)	34.6	26.0
EBITDA Margin(%)	18.8	20.4	19.1	22.1	24.3
Adj.PAT	46	59	40	64	86
EPS (Rs)	45	59	40	63	85
Change (yoy, %)	(47.3)	30.4	(32.1)	58.5	34.8
PE(x)	22	17	25	16	12
Dividend Yield (%)	0.3	0.4	0.2	0.3	0.5
EV/EBITDA (x)	10.9	11.0	12.0	8.8	6.8
RoE (%)	12.3	14.3	8.8	12.0	14.1
RoCE (%)	12.4	11.6	9.6	12.5	15.2

Source: IDBI Capital Research

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## Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
<b>Net Sales</b>	<b>1,22,945</b>	<b>1,31,831</b>	<b>(6.7)</b>	<b>1,36,178</b>	<b>(9.7)</b>
Total expenditure	92,889	1,09,124	(14.9)	1,07,785	(13.8)
<b>EBITDA</b>	<b>30,056</b>	<b>22,707</b>	<b>32.4</b>	<b>28,393</b>	<b>5.9</b>
<b>EBITDA/tonne</b>	<b>15,819</b>	<b>10,661</b>	<b>48.4</b>	<b>13,585</b>	<b>16.4</b>
<i>EBITDA margin (%)</i>	24.4%	17.2%	722bps	20.9%	360bps
Interest	2,966	3,416	(13.2)	3,318	(10.6)
Depreciation	7,215	6,906	4.5	6,829	5.7
<b>PBT</b>	<b>20,179</b>	<b>13,104</b>	<b>54.0</b>	<b>18,591</b>	<b>8.5</b>
Tax	5,219	3,754	39.0	5,211	0.1
<b>PAT</b>	<b>14,940</b>	<b>8,900</b>	<b>67.9</b>	<b>13,402</b>	<b>11.5</b>
<b>Diluted EPS</b>	<b>14.7</b>	<b>8.8</b>	<b>66.9</b>	<b>13.2</b>	<b>10.9</b>

Source: Company; IDBI Capital Research

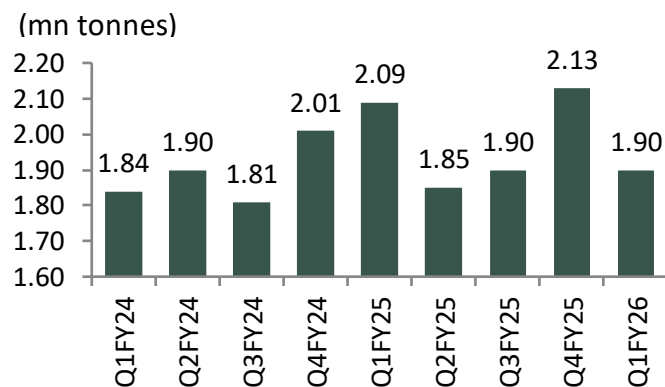
## Exhibit 2: Actual vs estimates

(Rs mn)

	Q1FY26E	Q1FY26A	% Variance
<b>Net sales</b>	<b>1,19,853</b>	<b>1,22,945</b>	<b>2.6</b>
EBTIDA	25,023	30,056	20.1
<b>Margin (%)</b>	<b>20.9</b>	<b>24.4</b>	<b>357bps</b>
PAT	10,881	14,940	37.3
Dil. EPS	10.8	14.7	36.0

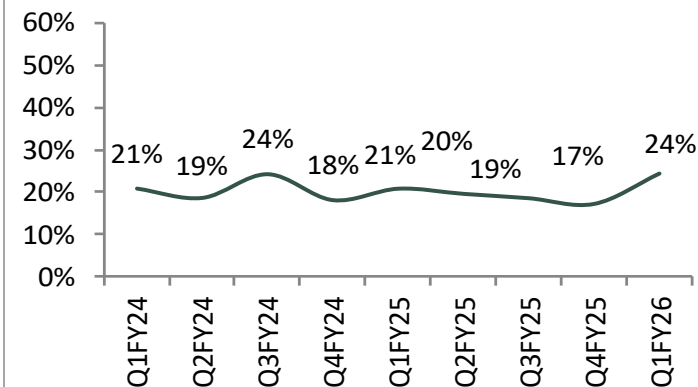
Source: Company; IDBI Capital Research

**Exhibit 3: Steel volumes down by 11% QoQ**



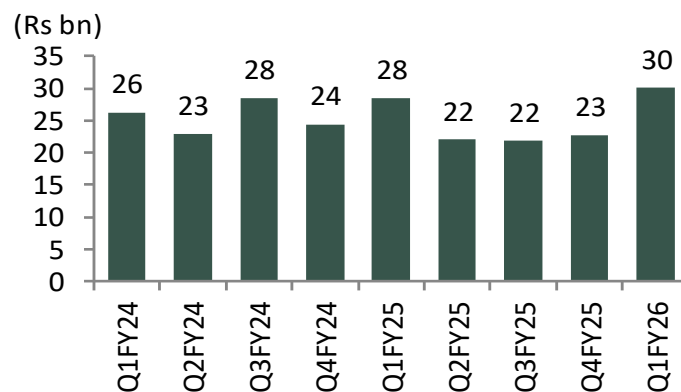
Source: Company; IDBI Capital Research

**Exhibit 4: Consolidated EBIDTA margins increased 722bps QoQ**



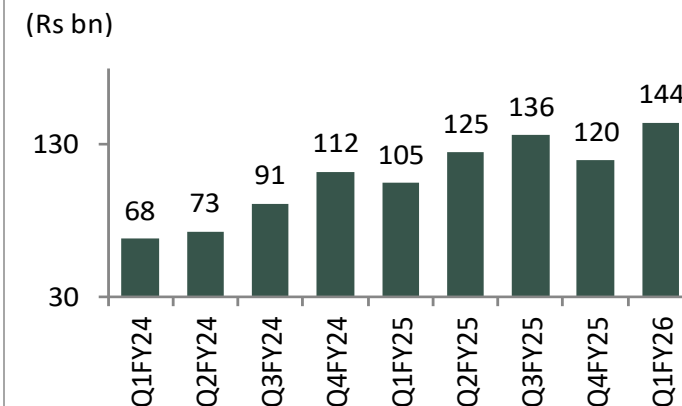
Source: Company; IDBI Capital Research

**Exhibit 5: Consolidated EBIDTA up 32% QoQ**



Source: Company; IDBI Capital Research

**Exhibit 6: Net debt increased by 20% QoQ**



Source: Company; IDBI Capital Research

## Conference call Highlights

### Financial Performance Highlights

- Consolidated Gross Revenue fell 8% QoQ to Rs. 143.36 billion, mainly due to lower volumes partially offset by increased average sales price.
- The strong performance was driven by higher average sales prices and lower input costs.
- Coking coal cost reduced by \$11 per ton QoQ, in line with guidance. Other raw material cost savings, including PCI and scrap, are largely sustainable.

### Operational Highlights

- Production was marginally down by 1% QoQ to 2.09 million tons.
- Sales volume decreased by 10% QoQ to 1.9 million tons, attributed to early monsoon onset and inventory replacement after a Q4 FY25 drawdown. Despite this, the company remains committed to its full FY26 sales guidance of 8.5-9 million tons.
- Capacity utilization was blended at 87% (Raigarh 95%, Angul 83-84%), a slight 1% decrease QoQ.
- Value-added products constituted 72% of sales in Q1, an increase from previous quarters, primarily due to the new commissioning of the mill and focus on high-grade HR coils and plate coils for specialized sectors like defense and automobiles. This high value-added percentage is deemed sustainable.
- Longs vs. Flats split: 56% longs and 44% flats.

### Debt and Capex

- Consolidated Net Debt as of June 30 was Rs. 144bn, an increase of Rs. 24bn QoQ due to working capital buildup.
- Net Debt to EBITDA stood at 1.49 times, adhering to the self-imposed limit of 1.5 times. This is considered a peak, with expectations for debt reduction in Q2 FY26 as inventory liquidates and new facilities contribute.

- Total Capex in Q1 FY26 was Rs. 22bn. Out of the total announced capex of Rs. 474.3bn, Rs. 281.5bn has been spent by June 30, 2025.

### **Project Updates & Outlook**

- Successfully commissioned its first 0.2 million tons Continuous Galvanizing Line at Angul.
- BF2 is in advanced pre-commissioning stages, with first hot metal expected in Q2FY26.
- BOF2, Slurry Pipeline, are progressing as per timelines, with the slurry pipeline expected to be commissioned this fiscal year.
- The Color Coating Line is expected by end of Q3FY26, with two more lines (galvanizing and color coating line number two) anticipated in Q4FY26.
- BF3 remains on track for completion in Q4 FY26.
- The company won the Roida 1 iron ore cum manganese block in Odisha, with an estimated reserve of 126 million tons, which will compensate for the minimal contribution from the near end-of-life Tensa mines.
- Thermal coal requirements were 90-95% met from captive mines in Q1, and the V1 mine is expected to be on track to meet core requirements this quarter.
- The 6 million-ton Pellet Plant expansion is planned for FY27.
- For Q2 FY26, the company expects the consumption cost of coking coal to be lower by around \$5 per ton.

### **Industry & Market Insights**

- Indian steel demand contracted 5% QoQ due to seasonal weakness and early monsoon.
- Domestic steel prices are currently 5-7% lower than Q1, but the impact on the company's value-added product mix is expected to be less due to lower price elasticity.
- Demand revival signs are observed from the construction and yellow goods sectors in August, indicating a strong demand outlook for coming quarters.

**Exhibit 7: Change in estimates**

	FY26E			FY27E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	580	580	-	663	663	-
EBITDA (Rs bn)	128	128	-	161	161	-
<i>EBITDA margin (%)</i>	<i>22.1</i>	<i>22.1</i>	<i>0bps</i>	<i>24.3</i>	<i>24.3</i>	<i>0bps</i>
Adj. Net profit (Rs bn)	64	64	(0.1)	86.3	86.4	0.1
Adj. EPS (Rs)	63.4	63.3	(0.1)	85.3	85.4	0.1

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs bn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
<b>Net sales</b>	<b>511</b>	<b>527</b>	<b>500</b>	<b>498</b>	<b>580</b>	<b>663</b>
<i>Change (yoy, %)</i>	31.0	3.2	(5.1)	(0.5)	16.5	14.3
Operating expenses	(356)	(428)	(398)	(403)	(452)	(502)
<b>EBITDA</b>	<b>155</b>	<b>99</b>	<b>102</b>	<b>95</b>	<b>128</b>	<b>161</b>
<i>Change (yoy, %)</i>	7.4	(36)	3	(7)	35	26
<i>Margin (%)</i>	30.4	18.8	20.4	19.1	22.1	24.3
Depreciation	(21)	(27)	(28)	(28)	(30)	(33)
<b>EBIT</b>	<b>134</b>	<b>72</b>	<b>74</b>	<b>67</b>	<b>97</b>	<b>128</b>
Interest paid	(19)	(14)	(13)	(13)	(12)	(13)
Other income	1	1	2	2	2	2
<b>Pre-tax profit</b>	<b>112</b>	<b>45</b>	<b>62</b>	<b>68</b>	<b>87</b>	<b>117</b>
Tax	(29)	(13)	(3)	(15)	(22)	(29)
<i>Effective tax rate (%)</i>	26.2	28.8	4.8	22.0	25.2	25.0
Minority Interest	(0.0)	-	0.0	(0.4)	(0.8)	(1.0)
<b>Net profit</b>	<b>82</b>	<b>32</b>	<b>59</b>	<b>53</b>	<b>64</b>	<b>86</b>
Exceptional items	(4)	(14)	-	12	-	-
<b>Adjusted net profit</b>	<b>87</b>	<b>46</b>	<b>59</b>	<b>40</b>	<b>64</b>	<b>86</b>
<i>Change (yoy, %)</i>	30	(47)	30	(32)	59	35
EPS	85.5	45.1	58.8	39.9	63.3	85.4
Dividend per sh	2.0	3.0	4.0	2.0	3.0	5.0
<i>Dividend Payout %</i>	2.4	6.7	6.8	5.0	4.7	5.9

**Balance Sheet**

(Rs bn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
<b>Shareholders' funds</b>	<b>356</b>	<b>387</b>	<b>443</b>	<b>472</b>	<b>533</b>	<b>614</b>
Share capital	1	1	1	1	1	1
Reserves & surplus	355	386	442	471	532	613
<b>Total Debt</b>	<b>129</b>	<b>124</b>	<b>159</b>	<b>178</b>	<b>168</b>	<b>148</b>
Other liabilities	80	74	75	74	74	223
<b>Curr Liab &amp; prov</b>	<b>187</b>	<b>106</b>	<b>106</b>	<b>132</b>	<b>141</b>	<b>160</b>
Current liabilities	182	102	101	126	136	154
Provisions	5	4	5	6	6	6
<b>Total liabilities</b>	<b>395</b>	<b>304</b>	<b>340</b>	<b>384</b>	<b>384</b>	<b>377</b>
<b>Total equity &amp; liabilities</b>	<b>766</b>	<b>694</b>	<b>787</b>	<b>858</b>	<b>920</b>	<b>995</b>
Net fixed assets	480	514	580	657	722	768
Investments	5	9	8	22	22	22
Other non-curr assets	19	24	28	21	21	21
<b>Current assets</b>	<b>263</b>	<b>147</b>	<b>171</b>	<b>158</b>	<b>155</b>	<b>184</b>
Inventories	73	59	71	56	50	56
Sundry Debtors	13	10	17	14	14	16
Cash and Bank	37	47	40	42	45	65
Other current assets	141	31	43	47	47	47
<b>Total assets</b>	<b>766</b>	<b>694</b>	<b>787</b>	<b>858</b>	<b>920</b>	<b>995</b>

**Cash Flow Statement**

(Rs bn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	112	45	62	68	87	117
Depreciation	30	27	28	28	30	33
Tax paid	(20)	(27)	(7)	(15)	(22)	(29)
Chg in working capital	5	12	(1)	10	-	-
Other operating activities	34	17	(23)	42	28	17
<b>Cash flow from operations (a)</b>	<b>160</b>	<b>73</b>	<b>60</b>	<b>133</b>	<b>123</b>	<b>138</b>
Capital expenditure	(29)	(64)	(84)	(105)	(95)	(80)
Chg in investments	7	(4)	2	(9)	-	-
Other investing activities	(2)	27	(1)	(9)	-	-
<b>Cash flow from investing (b)</b>	<b>(23)</b>	<b>(41)</b>	<b>(83)</b>	<b>(123)</b>	<b>(95)</b>	<b>(80)</b>
Equity raised/(repaid)	(5)	(2)	(2)	11	-	-
Debt raised/(repaid)	(128)	(4)	19	34	(10)	(20)
Dividend (incl. tax)	(1)	(2)	(2)	(2)	(3)	(5)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(17)	(17)	(1)	(35)	(12)	(13)
<b>Cash flow from financing (c)</b>	<b>(151)</b>	<b>(25)</b>	<b>14</b>	<b>8</b>	<b>(25)</b>	<b>(38)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(14)</b>	<b>8</b>	<b>(10)</b>	<b>18</b>	<b>3</b>	<b>20</b>

### Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	352	383	438	466	527	607
Adj EPS (Rs)	86	45	59	40	63	85
Adj EPS growth (%)	29.8	-47.3	30.4	-32.1	58.5	34.8
EBITDA margin (%)	30.4	18.8	20.4	19.1	22.1	24.3
Pre-tax margin (%)	21.9	8.5	12.5	13.7	15.0	17.6
Net Debt/Equity (x)	0.3	0.2	0.3	0.3	0.2	0.1
ROCE (%)	23.0	12.4	11.6	9.6	12.5	15.2
ROE (%)	25.7	12.3	14.3	8.8	12.0	14.1

### DuPont Analysis

Asset turnover (x)	0.7	0.7	0.7	0.6	0.6	0.7
Leverage factor (x)	2.3	2.0	1.8	1.8	1.7	1.6
Net margin (%)	16.9	8.7	11.9	8.1	11.1	13.0

### Working Capital & Liquidity ratio

Inventory days	52	41	52	41	32	31
Receivable days	9	7	12	10	9	9
Payable days	54	40	43	52	46	46

### Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	11.6	22.1	16.9	24.9	15.7	11.7
Price/Book value (x)	2.8	2.6	2.3	2.1	1.9	1.6
EV/Net sales (x)	2.2	2.1	2.3	2.3	2.0	1.6
EV/EBITDA (x)	7.1	10.9	11.0	12.1	8.9	6.8
Dividend Yield (%)	0.2	0.3	0.4	0.2	0.3	0.5

Source: Company; IDBI Capital Research

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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